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TAGS: EFIN KPRV EMIN EIND ECON JO BX
SUBJECT: JORDAN'S PARTIAL PRIVATIZATION OF PHOSPHATE
COMPANY OPENS DOOR TO INVESTMENT DOLLARS FROM BRUNEI

Classified By: Ambassador David Hale for reasons 1.4 (b, d).

¶1. (C) SUMMARY: Jordan's recent sale of a 37% stake in the Jordan Phosphate Mining Corporation (JPMC) to the Brunei Investment Agency (BIA) for US$110 million met with public and parliamentary disapproval before the deal was concluded. Given BIA's overall size of over US$100 billion, the investment in JPMC is small for BIA but represents its first venture into the Middle East. While other international companies expressed interest in taking a stake in JPMC, GoJ officials indicate the strategic decision to pursue a deal with BIA was made in 2004 at the highest levels. Some MPs voiced opposition to the sale, prompting negative publicity and a GOJ effort to convince legislators of the benefits of the transaction. The sale's price and conditions, however, indicate a highly favorable deal for Jordan, and a successful first step by King Abdullah to court the Sultan of Brunei and pave the way for future investments from the BIA. It remains unclear if this privatization enhances JPMC's position in global phosphate commodity trading; only a promised BIA business plan will tell. END SUMMARY.

STRUCTURE OF THE DEAL

¶2. (U) The cabinet March 14 approved the GoJ's sale of 37% of JPMC, the world's sixth-largest miner and producer of phosphate and phosphate-based products, to BIA for US$110 million, leaving 26% of the company in government hands. Through continuing investments by Jordan's pension administrator, the Social Security Corporation, the government retains another indirect 16% of the company, for a total of 40%. Additionally, the government will continue to collect US$16 million annually from JPMC in mining fees and taxes. BIA's purchase price was US$4/share, above the US$3.80/share valuation by HSBC (the GoJ's banking advisor on the sale), but less than the US$6/share the company was trading on the Amman Stock Exchange (ASE) when the deal was signed. As part of the sale, the government retains its veto power on all management decisions. Additionally, BIA is barred from reducing the workforce - described by financial analysts who track the company as being 25-33% overstaffed - for the next three years.

WHY OWN THE COW WHEN YOU GET THE MILK FOR FREE?
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¶3. (C) As it moves forward on its privatization agenda, the GoJ's financial rationale for the sale of JPMC relies heavily on the logic that it will continue to collect a majority of its current revenue from JPMC without owning a majority of the company. In 2004, JPMC turned profit for the first time in many years. With a 66% stake in JPMC, the US$6.1 million profit generated US$4 million for the government's share in the company. This number was dwarfed by the additional US$11.2 million generated in mining fees plus US$5.7 million in taxes for the government. With the 37% share sale, the GoJ will continue to collect mining fees and taxes but will forego 37% of the company's profit. Using 2004 financials as a baseline, this is approximately US$2.24 million, an amount that would take, at current profit levels, approximately 49 years to equal what BIA is paying for its stake. In a meeting with EconOff on March 16, Executive Privatization Commission (EPC) Chairman Mohammed Abu-Hammour cited a similar rationale, pointing out that future profits for the company are not guaranteed with "things not in favor for the company long-term." (See para 6.)

ALLEGATIONS OF A LOW SALE PRICE

¶4. (C) Asked to address the concern by some that the GoJ had sold the 37% JPMC share at a major discount to the company's share price on the stock exchange, Abu-Hammour provided a number of explanations. First, the price paid by BIA of US$4/share is above the fair market price of US$ 3.80/share that HSBC determined for JPMC. Second, only 3% of the company trades on the stock exchange. According to Abu-Hammour, attempting to "float 37% of the company on the market would lead to a fall in the price," generating a more realistic valuation than the US$6/share the stock was trading at when the BIA purchase was announced. Third, in his own estimation, the ASE "is in a bubble" and suffers from overvaluation and speculation that do not provide a fair per share price for the company.

WHY BRUNEI?

¶5. (C) GoJ officials confirmed that negotiations for a JPMC stake with BIA were initiated as early as 2004. Abu-Hammour admitted that he was surprised when, after becoming Chairman of the EPC in April 2005 and requesting interest from international bidders in JPMC, the Prime Minister informed him that a fast-track process had already been underway with BIA since 2004. Abu-Hammour said he requested and received a letter from the Prime Minister stating that Bassem Awadallah, then Minister of Planning, had initiated negotiations with BIA at the request of the King. Abu-Hammour went on to say that the letter gave him clear instructions to carry out negotiations solely with BIA and to complete the sale by the end of 2005.

¶6. (C) When asked if the retraction to other interested parties in October 2005 may have fostered a lack of transparency, Abu-Hammour replied that the transaction was handled with as much transparency as possible, and that the GoJ was motivated more by closing the deal by the end of 2005 to ensure a high valuation. The process involving international bidders was stopped before a request for bid was published, dispelling any concern that the GoJ had violated a good faith initiative with bidders, he added. According to Abu-Hammour, involving international bidders would not necessarily have netted the GoJ a higher price for the sale, but would have guaranteed that the process would be delayed considerably as all offers were evaluated. Abu-Hammour added that with a "new Saudi phosphate-fertilizer company coming on-line in 2008," the value of JPMC would decline. Hence, the need to move quickly on the transaction.

¶7. (C) Above all else, GoJ officials indicate, the King's

decision to foster a strong investment relationship with the Sultan of Brunei was the primary driver of the 37% sale of JPMC (This point was made by the King to the Ambassador when this deal was first discussed, in the fall of 2004). Abu-Hammour cited BIA's investment in JPMC as its first in the Middle East, and a potential huge boon for future investments. A great price, retention of employees, and veto power for the GoJ were additional gestures that BIA was more than willing to concede to, said Abu-Hammour. GoJ Spokesman Nasser Judeh concurred, telling EconOff on March 16 that this transaction allowed the Sultan to "slip money into Jordan's pocket," a positive development the King "should be credited for facilitating."

PUBLIC AND PARLIAMENTARY OPPOSITION TO SALE

¶8. (C) Many in the public and parliament spoke negatively of the sale, complaining of a low-sale price and the surprise nature in which the government had conducted the deal. Asked why the GoJ had not done more to sell the public and parliament on the sale before announcing it, Abu-Hammour cited legal regulations that do not require the Cabinet's privatization council to do so, the sensitive nature of the sale based on the decisions of higher principals, and instruction from the previous PM to conclude the sale quickly. While two MPs on the Finance Committee expressed their opposition to the sale by submitting a letter of complaint and walking out of parliament, Abu-Hammour believes he was able to convince most others of the benefits of the deal in a question- and-answer period held with MPs the week of March 12. COMMENT: A few MPs have continued to question the sale in private to PolOff, but do not plan to raise their doubts further in public. END COMMENT. Additionally, the press has stopped carrying stories of public opposition to the sale.

OTHER INTERESTED PARTIES

¶9. (C) When pressed on why offers from other parties were not considered, Abu-Hammour suggested that most would not make much business sense. Where would companies from Tunisia and Morocco (who also mine phosphate rock and were interested in taking a stake in JPMC) cut production if world prices of the raw material fell, he asked rhetorically. "Obviously in Jordan," he replied, rationalizing why BIA, a company with no background or interest in other phosphate companies, is a good fit. In a discussion with EconOff on March 16, Indian Ambassador to Jordan R. Dayakar disagreed, citing the interest of Indian fertilizer companies in investing as a means to meet growing demand for downstream products like fertilizers. In his opinion, the GoJ had "not made a strategically wise decision" in going with BIA because it had no background in the business and would not see the value in cultivating the production of high-end, downstream products. Chairman of JPMC Mohammed Salin Bader Khan agreed that demand for downstream products was growing in the Far East, especially in India and China, but questioned whether investment by a customer-oriented company would "bring any value to JPMC."

FUTURE OF THE COMPANY

¶10. (C) Khan stressed that the future of the company depends on how BIA plans to diversify the product line. He was enthused that BIA was joining the board if it meant future capital investments in the company and an accelerated plan to diversify the product line by focusing on downstream products. If JPMC focuses heavily on raw phosphate extraction, "the national value is limited to cluster businesses prone to cyclical prices," whereas a focus on downstream commodities like fertilizers guarantees higher profit margins and makes the "company immune to cyclical downfalls," Khan said. He cited a growing market for phosphate commodities in East Africa and the Far East as an opportunity JPMC needs to seize. Whether BIA will capitalize

will be more clear when they submit a promised business plan within six months.

¶11. (C) COMMENT: While the GoJ's failure to lay the public groundwork for the sale of a high-profile national asset led to public and parliamentary disapproval of the sale, in the end, positive engagement with parliament helped push the sale through. The bottom line, however, is that the GoJ received a good price for the 37% stake, with a number of concessions that should prevent backlash from JPMC employees. What remains unknown is whether the sale will promote investment in the development of downstream products of phosphate that are in growing demand on the world market.

¶12. (U) Read all of Amman's Classified cable traffic at http://cables.state.sgov.gov/ncddos/cable/cou ntry/JOR/ home.html.
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